

John Stockton

STATE OF NEW-YORK.

No. 51.

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IN SENATE,

no!

March 23, 1841.

REPORT

Of the committee on finance, on various reports referred, of the State officers.

Mr. Verplanck, from the committee on finance, to whom were referred the annual report of the Comptroller, that of the Commissioners of the Canal Fund, and other reports and documents,

REPORTS :

That the committee have had the several reports and papers referred to them under consideration, and have concurred in various estimates, and recommendations therein contained. Bills in conformity therewith, have been prepared, some of which have already been introduced, and are now pending, and another is herewith submitted. The present bill being intended to aid in presenting hereafter the financial condition of the State to the Legislature and the people, in a more clear and simple form than heretofore, the committee regard this as a proper occasion to present their general views of our financial state and policy, and to give in a condensed form the results of the estimates upon which the measures and appropriations recommended by this committee were founded. In the examination it is important first to state the real amount of the debts, and the public property of the State.

Of the debt of \$7,737.81 contracted before 1825, for the original construction of the Erie and Champlain canals, there remains, after extinguishing \$5,683,963, a debt which (with the exception of \$26,-
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000,) cannot be redeemed before 1845, unless with the consent of the holders. This amounts to \$2,054,808.

The means for the redemption of the debt are already provided. These consist of

1st. The loan to the United States Deposit Fund, bearing an interest of six per cent, and invested in the several counties in bond and mortgage,	\$917,385
The moneys received from time to time from these bonds are directed to be applied to the repayment of the loan after the extinguishment of a smaller similar debt to the General Fund.	
2d. Loan to the city of Albany at five per cent, which is in a progress of gradual reduction annually, so as to be extinguished in 1845,	162,000
3d. Deposits in banks drawing an interest of five, and five and a half per cent, payable at 60 and 90 days' notice,	944,510
Ditto, without interest, subject to immediate draft,	46,069
Making an aggregate of productive funds applicable only to the payment of the above debt, of	<u>\$2,079,944</u>

There is also another debt purely nominal, which has sometimes led to misstatement.

1st. The General Fund appears a debtor for loans from the Canal Fund without interest, according to the act of 1836, to the amount of

\$1,637,603

This is the aggregate amount of the several sums applied out of the excess of the canal revenue to the general expenses of former years, when the other revenues fell short; under the act authorizing such deficiency to be supplied by a loan not exceeding \$400,000 in any year from the surplus canal revenue. This being a mere matter of account between two funds, both belonging to the State, is no real debt.

2d. Loan from the Canal Fund, made in 1837, for the use of the U. S. Deposit Fund to complete the full amount of investment of mortgages in the several

Carried forward,

\$1,637,603

Brought forward,	\$1,637,603
counties, and which has since been in gradual progress of reduction. It is now	917,385
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This loan being invested in bond and mortgage, is perfectly secure, and is not a debt of the State, but simply so much of the fund for the redemption of the old canal debt, invested in bond and mortgage in the name of the Commissioners of the U. S. Deposit Fund.	
This amounts to	\$2,554,988
Making, with the old canal debt of	2,079,964
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The aggregate of	\$4,634,952
appearing as debt in our accounts, which is either wholly nominal and matter only of account, or is fully provided for by well invested funds, producing an interest exceeding that annually paid.	

Throwing these debts out of the calculation, the present real debt of the State will be found to be as follows :

General Fund Debt.

Astor stock at 5 per cent,	\$561,500
Due to the Bank Safety Fund,	693,086
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\$1,254,586	
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Canal Debts.

For the Erie canal enlargement,	\$6,500,000
For the lateral canals finished, (as Oswego, Cayuga and Seneca, Crooked Lake, Chenango and Chemung canals,) and unfinished, (the Black River and Genesee Valley canals,)	7,151,784
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Total canal debt,	\$13,651,784
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Of this amount, about ten millions have been expended on works which are not yet finished, and consequently produce no revenue.

There are besides some present contingent liabilities of the State, being loans of State credit to incorporated companies for objects of internal improvement. For the payment of principal and interest of

these, the several companies are bound in the first instance, and the State is secured by the pledge of their whole property invested in the several works to a much larger amount than the respective loans.

The loan of credit to the Delaware and Hudson canal, ..	\$800,000
Ditto to several rail-road companies, (see Comptroller's report of Jan. 26, 1841,)	2,135,700
Since issued,	300,000
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	<u>\$3,235,700</u>

Thus there appears to be, besides this amount of contingent and guarantied debt just stated, a total amount of other State debt of \$14,905,370

These debts, and whatever additional amounts may hereafter be added, were contracted doubtless upon the general credit of the productive aggregate wealth of this State ; of which the official valuation of 1840 gave, of the real estate the value of.....	\$517,723,170
And of the personal property,	121,449,830
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Making a total amount of	<u>\$639,173,000</u>

As this valuation does not include any of the public property, or that belonging to towns, cities, &c. nor the property invested in colleges, academies, schools, churches, &c. and as the valuation of the real estate, made for the purpose of local taxation, is well known to be placed, almost every where, below its real and market value, and in very many counties, very far below that value, there is certainly a property of not less than one thousand millions of dollars in this State which may be subjected to a State taxation, (from which it is now wholly exempt,) in case of any partial deficiency of ordinary revenue.

This consideration, however, is important mainly as to the stability of our credit abroad and at home, there being, as will be shown, no probable necessity for resorting to such taxation.

The property which the State holds in its own right, and not merely as a right of eminent domain over the property of its citizens, is that to which we must look immediately for annual revenue and for the means of paying present and future debts.

In estimating the public property of the State, that which is subject to general use is alone to be taken into account. The public buildings of the State, with its prisons, arsenals, asylum, &c. are therefore not taken into this estimate, any more than the well invested funds specially devoted to aid local taxation and the collegiate and academic corporate funds, for the purposes of public instruction.

These funds, however, in this general view of our financial condition, it is proper to state for the purpose of information.

These consist of the original Common School Fund,	\$2,033,808
The lands belonging to the same, estimated at	196,241
The U. S. Deposit Fund, applied under the act of 1838 to the purposes of education,	4,014,520
The Literature Fund, for similar purposes, has, besides its unproductive lands, a fund of	268,778
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	\$6,513,347
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Throwing out of the calculation these funds, sacred to special purposes, justly cherished by our whole people, the remaining productive State property will be found to consist :

1st. In the canals, the tolls of which produce, after paying the expense of superintendence, a clear and increasing income of \$1,250,000, equal, in their present state of partial completion, to a capital of	\$25,000,000
The rents derived from the salt springs, about \$150,000, annually, equal to a capital of	3,000,000
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	\$28,000,000
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This income, like the canal revenue, is progressive, though not regularly so, as more distant markets are opened for the salt, or a greater demand arises from our increase of population.

The next important point of inquiry is the comparison of the amount of annual expenditure, and of interest upon funded debt paid by the State, with its income.

This comparison will be simplified by throwing aside from the estimate on both sides, the payments to the purposes of education from the

specific funds above stated, as well as the income from them ; and also the expenses for the penitentiary establishments, so far as the same are met by their specific income ; and those of the Marine Hospital, and other establishments, defrayed from the Seamen's and Passenger's Fund.

These, and similar receipts and expenditures, would, if stated, merely swell and complicate the account without producing any difference in the result.

The legislative, judicial, executive and militia expenses paid by the State, amount annually to	\$300,000
The Indian annuities and expenses, Geological Survey and miscellaneous expenditures, may be estimated at	60,000
Public buildings, new State-Hall, Asylum, &c.	100,000
Annuities to Institution for the Deaf and Dumb, Blind, &c.	66,500
Interest on State debt, other than that for internal improvement,	61,600
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	\$588,100
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This estimate includes the sum of \$125,000 for the erection of the new State-Hall and the main building of the State Asylum, and for the Geological Survey, all of which will be completed in 1841. This amount may be hereafter applied to similar objects or unexpected demands of some other nature.

The aggregate payments for the last year were swelled beyond this amount, by the expenditure of \$145,941 for erection of buildings ; of \$42,000 for surveys for internal improvement, and also by the purchase of Indian lands to be re-sold ; none of these forming the ordinary annual expenditure.

The ordinary revenue arising from our salt rents, may be computed at present at	\$150,000
From auction duties,	175,000
From fees of officers paid into the treasury, and some smaller revenues,	65,000
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	\$390,000
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The above estimate of revenue from the salt springs, is made without any calculation of the progressive character of this fund as a wider market is opened for our salt ; whilst the estimate of the auction duties is placed below the actual receipts of many former years, which have sometimes exceeded \$250,000, and were last year reported at \$225,000.

It is therefore believed that the State revenue, from these sources, will commonly hereafter a good deal exceed the amount above stated, but it has been thought preferable to avoid the chance of any over estimate, and to place the amount at the receipts of the present year, leaving any future increase to meet any unexpected increase of expenditure from unforeseen causes.

Thus the ordinary deficiency of the State revenue on this low estimate, exclusive of that derived from our public works, to meet the probable annual expenditures, will be \$197,000, or a sum not exceeding \$200,000 ; and which may, with economy as to building and miscellaneous expenses, be reduced to about \$100,000.

It may also possibly, in some years of more free expenditure, be increased to \$300,000.

An annual appropriation of \$200,000 from the canal revenues will meet the average deficiency of the other State funds.

The present gross amount of our canal revenues may be safely estimated from the returns of the last year's season of navigation, two months of which fall within the present fiscal year.

The revenue from tolls was.....	\$1,775,747
Income from water rents, &c. about	9,000
The revenue of the lateral canals was about \$75,000, or \$68,040 exclusive of the Genesee Valley, part of which was open for a short time at the end of the season. The revenue from that canal during the year may be estimated at \$20,000, and the whole income of the laterals at....	\$90,000
Making in round numbers,.....	<u>\$1,875,000</u>
The expenses of repairs, superintendence, &c. including the usual allowance for those extra repairs	
Carried forward,.....	<u>\$1,875,000</u>

Brought forward,	\$1,875,000
which are rather new constructions and improvements, but which have been frequently classed under this head, are about	\$550,000
Interest on present enlargement debt,	330,000
Upon debt for the construction of the lateral canals,	357,000
	<hr/> 1,237,000
Leaving an excess of income of,	\$638,000
From which there is also to be deducted the payments necessary to meet the ordinary State expenditures,	200,000
	<hr/> \$438,000
To meet the interest on any additional debt or other contingent charge, or else be applied directly to the cost of construction.	

The total cost of work still under contract, (the greater part being put under contract during the year 1838,) amounts to \$6,310,454. Should the sum of \$4,000,000 be appropriated this year to be applied to these contracts, the future progress of the public works and their annual expense will be hereafter under the control of the Legislature, without any risk of disappointing the arrangements of contractors or exposing the State to heavy responsibilities for consequent damages. The expenditures on our public works, after the application of the present year's appropriation, and of about three millions in addition, may be enlarged or reduced, as the revenue may justify or the wants of trade require, whilst the future additions to our canal debt and the rate of progress of our public works may be graduated accordingly.

What that future revenue and rate of progress may be, is of course a matter of estimate and probability only. But such estimates need not rest upon mere conjecture. They may be drawn from the observed laws of population and trade, since the canal transportation cannot but continue to hold some regular proportion to the increase of population and wealth in our own State, and in the vast regions beyond, which must find their best avenue to the Atlantic through our artificial channels of internal communication. Such estimates, though, like all human calculations upon probabilities, liable to error and disappointment as to their particular application at any given time, and in all events but approximations to the actual results, are yet in the main, and on the long run, safe guides for action when prudently used.

The Canal Board, in their special report to the Legislature of April 11, 1840, have shown from the comparisons of the returns of former years, that the canal tolls had increased with remarkable regularity, at the rate of seven and a half per cent annually, for the period of ten years; that is, not seven and a half per cent in regular progression successively upon each last year, but 75 per cent in the ten years, increasing irregularly during the whole term. This term was selected as being one sufficiently long to embrace the ordinary fluctuations of trade, and yet not so long as to reach beyond the probable operation of existing causes.

The probability of this estimate is not only supported by the former experience of the canals, and especially that of the last season of navigation, since the report and agreeing with its estimate, but is confirmed by various considerations from the general laws according to which population has hitherto augmented, and the interchange and consumption of domestic and foreign products have been regulated.

It may, therefore, be assumed as a safe and probable basis of calculation of our future revenue, and consequent means of prosecuting the public works, either now in progress or in contemplation. Yet, notwithstanding its probable truth, prudence must dictate that in this, as in all similar calculations, mere probability must not be regarded as certainty, but that the means of compensation for any unexpected error should always be provided. Assuming, then, this estimate as the basis of calculation, it must be borne in mind, that should the actual results of revenue fall short of the estimates, that deficiency must be balanced by a corresponding reduction in the amount annually applied to our public works, and a retarded rate of progress in their construction. The aggregate canal revenue during the ensuing six years, on this estimate, will be \$13,595,165, giving an average income of \$2,265,860 annually, and leaving, at the end of the term, an annual income of about \$2,600,000.

Out of this average income of	\$2,265,800
must be deducted for the ordinary expenses of	
the canals,	\$500,000
Extra expenses and contingencies,	150,000
Interest on present canal debt,	687,000
Payment in aid of general expenses,	200,000
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	1,537,000
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	\$728,800

Leaving an average excess which would amount during
the 6 years to,..... \$4,372,800

Assuming moreover during these six years an additional debt after the four millions of the present year, of twelve millions spread over the succeeding five years, the aggregate amount of interest thereon, calculating from the ordinary periods of making the loan in each successive year, would be about,..... 2,870,000

The actual amount would exceed or fall short of this sum, as the loans were larger or smaller in 1842, '43, and more thrown upon later years. _____

This would leave an excess of,..... \$1,402,800
to be applied to the construction, which with the moneys to be raised by loan would amount to about seventeen millions and a half, and complete the several works now in progress. Or in another point of view, this would allow of an error of \$233,850, in the estimate of the annual average canal income, without compelling a resort to other sources of income. Such a result would fall a good deal short of the calculation of seven per cent average increase for periods of seven years, as stated in the report above referred to, which has hitherto proved below the actual aggregate receipts. In this case the completion of these works must be delayed for at least another year.

All these proportions of annual expenditures and loans, must be judged of by future Legislatures, who will be able to examine the questions without being under the compulsion of providing to meet heavy immediate contracts. Adverse circumstances, or the assumption of new works may make it necessary, if we would avoid any recourse to direct taxation, for the support of internal improvements, to spread our expenditures over a still longer term of years.

If again the requirements of trade manifested by increased transportation, and consequently increased revenue, should demand an earlier completion; or if the natural increase of that canal revenue, or the addition of new revenues from the now probable distribution of the income from the PUBLIC LANDS, should justify new and expensive undertakings, the loans and expenditures above estimated, would be crowded into four of five years.

In either case the whole amount of debt contracted would be invested in permanent and productive works of equal value in themselves,

with the moneys invested in them, and adding far greater value to the commerce and industry of the State. The real redemption of the debt would commence whenever the necessity of new loans ceased, by the operation of the only really efficient sinking fund, an excess of income over expenditures.

The views and estimates above furnished, lead the committee to the conclusion that there is no probable necessity of being compelled to resort to direct taxation upon that large and increasing amount of private property now assessed only for local purposes, and town or county charges.

Such taxation was recommended by some of the State officers in former years, as by Comptroller Wright, in 1830, in 1831, in 1832, and in 1833; and by Comptroller Flagg, in each successive year, from 1834 to 1839 inclusive. No one of the successive Legislatures of those ten years, concurred in that opinion; and experience has thus far shown, that the estimate entertained by the representatives of the people, of the resources and prospects of the State, was correct. Whatever future necessity may arise, such taxation hitherto would have been only a useless burden upon industry, enterprise and capital.

Should, however, such a necessity arise hereafter, we may still entertain the most perfect confidence that the sums to be raised would not, as in some other States and countries, be equal, or any where nearly so, to the whole amount of our expenditures and annual interest, but would be merely the excess of such expenditures and interest, above the large canal and State revenues; so that such a deficiency need never be very large, or the taxation required to supply it very burdensome.

A prudent management of those funds, and a careful adjustment of our future appropriation to our revenue, would make any such deficiency highly improbable in any event. But if those funds should be augmented from the distribution of the income of the public lands, in any manner, such a deficiency could not occur in all human probability, even in a larger extension of our public undertakings, and a more rapid rate of completion of the works now in progress.

There is, moreover, still another ultimate resource, which, should the calculations of increased revenue, thus founded upon uniform ex-

perience and high probability, be nevertheless disappointed by the result, or delayed for some years, may still prove a sufficient compensation for any such error. This is to be found in the enlarged Erie canal itself. The great end to be effected by the enlargement, is the diminution of the cost of transportation, by which, as well by the augmented facility of that transportation, the redundant agricultural abundance of the west, may be economically and rapidly exchanged for the products of the industry or commerce of the Atlantic coast. When this is effected by the enlargement, should the increase of trade and revenue not answer our present reasonable expectation, the great economy obtained in the cost of mere transportation, would allow, if necessary, some increase in the tariff of tolls. There are many considerations, private and public, which should be an obstacle to any such measure, unless it became very important to the credit and revenue of the State. But in any such emergency it might be safely resorted to, in a moderate degree, and still leave a very great reduction in the aggregate charges of transportation, as compared with those on the present canal. By means of the enlarged and improved canal, the average expense of transportation will be reduced about one-half. This is the calculation of scientific engineers, founded on the law of traction in water, as ascertained by numerous and accurate experiments, and reduced to mathematical formulas and rules of calculation by *Du Buat*, and other high authorities in mechanical science. This theoretic estimate, (if an estimate founded upon such *data* can be called theoretical) is confirmed by the calculations and experience of practical men engaged in the business of internal transportation, as to size of boats, number of men and horses employed, &c. The aggregate expense of transportation now, averages about one-fourth more than the amount of tolls. Thus the tolls on flour from Buffalo to Albany, are $35\frac{38}{100}$ cents the barrel, whilst the cost of transportation is stated to be about 44 cents.

This ratio varies in different degrees as to other articles in proportion to their cost of transportation from weight or bulk; but as flour forms one of the greatest and most valuable articles of our internal trade, it presents as good an average example as can be taken.

Now the improvement of the canal navigation, it is calculated, will reduce that cost of transportation to 22 cents. It is then evident that if there be any strong necessity for an increase of revenue, that the business of the canal would not be injured by an addition of twenty

per cent on the present tolls, when the seven cents thus added to the present aggregate charges on each barrel of flour, are more than compensated by twenty-two cents reduction in the cost of mere transportation, leaving a clear gain on the whole expense of transportation to tide water, of fifteen cents the barrel, by reason of the enlargement. Such an increased tariff of tolls upon the the revenue of the enlarged canals, allowing no great increase upon its present business, and estimated at from fifteen to twenty-five per cent on the existing rates, would secure an income of half a million a year, a sum amply sufficient to meet any probable deficiency in the State's income, whilst the burden it would impose upon trade, would be light in comparison with the benefits it must receive from the enlargement.

The committee have deemed it proper to point out this resource, not as a measure recommended by them, nor is their judgment likely to be required. They rather look to such a state of business some years hence as would justify a farther reduction of the tolls. But it is important to guard against every adverse contingency, and such a resource within the power of the State, though it may never be used, is calculated to give great stability to our credit and confidence in our public enterprises.

In the mean while it appears to the committee that the arrangement of our accounts advised by them last year, and this year recommended in the annual report of the Comptroller, would be of great service in giving clearness and simplicity to our annual statements, and enabling future Legislatures to understand more distinctly as well as more easily the true condition of our finances in every year.

This is in effect, to apply to the books of the treasury, the principle upon which the several statements of our present revenue and expenditure presented in this report have been made. It is,

1st. To make all the deficiencies of the lateral canals to meet the interest on their debt and cost of superintendence chargeable directly upon the surplus revenues of the Erie and Champlain canals after the payment of their own expenses and interests for which they are specifically pledged.

2d. To put an end to the form of borrowing from the canal revenues to aid the General Fund, and instead thereof, to authorize the application of a sum not exceeding \$200,000 annually, from the surplus canal income to the general purposes of the treasury : and on same ground ;

2d. To balance and close the account between the two funds for nominal advances, and to strike out of our books and annual reports the nominal debt thus made to appear as owing by the State to the fund of which the State is the sole proprietor.

A bill for these purposes is herewith submitted.

AN ACT

To regulate the accounts between certain funds belonging to the State.

The People of the State of New-York, represented in Senate and Assembly, do enact as follows :

§ 1. Any deficiencies in the revenues of the lateral canals to pay the interest upon the stocks issued to defray the cost of construction, and the expenses of superintendence and repair thereof, now by law chargeable to the general fund, shall hereafter be paid and provided for by the Commissioners of the Canal Fund from the surplus revenues of the Erie and Champlain canals, which may remain after paying the expenses of repairs and superintendence of those canals, and the interest on the stock issued for the enlargement.

§ 2. The Commissioners of the Canal Fund shall pay to the treasury of this State, on or before the thirteenth day of September next, and on or before the thirteenth day of September in each year thereafter, for the use and benefit of the general fund, from the moneys belonging to the surplus revenues of the Erie and Champlain canal, as aforesaid, such sum not exceeding two hundred thousand dollars, as may be required, to defray the necessary expenses of the State, instead of the sum of four hundred thousand dollars required to be loaned to the treasury by the said Commissioners, by the first section of the act entitled "An act to replenish the general fund by loans from the canal fund," passed May 16, 1836, which act is hereby repealed so far as relates to all future loans.

§ 3. The amount heretofore loaned to the treasury under the provisions of the aforesaid act, shall be charged to the Erie and Champlain Canal Fund, and the account against the treasury for all such advances as shall have been made at the time of passing this act, shall be deemed to be liquidated and settled.

§ 4. The Treasurer shall pay, on the warrant of the Comptroller, to the Commissioners of the Canal Fund, or to the then holders of the stock, on or before the thirtieth day of September next, the sum of ten thousand dollars, for the redemption of that amount of stock issued under the provisions of the act entitled "An act to loan the credit of the People of the State of New-York to the president, directors and company of the Neversink Navigation Company," passed April 15, 1828.

